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BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE
STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company (U904G) Regarding Year 22 (2015-2016) of Its Gas Cost Incentive Mechanism	A.16-06-009

PROTEST OF SHELL ENERGY NORTH AMERICA (US), L.P., THE ALLIANCE FOR RETAIL ENERGY MARKETS AND THE SOUTHERN CALIFORNIA GENERATION COALITION

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Date: July 22, 2016

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In accordance with Rule 2.6 of the Commission's Rules, Shell Energy North America (US), L.P. ("Shell Energy"), The Alliance for Retail Energy Markets ("AReM"),[1] and the Southern California Generation Coalition ("SCGC") submit this joint protest to the Gas Cost Incentive Mechanism ("GCIM") application filed by Southern California Gas Company ("SoCalGas") on June 15, 2016. In its application, SoCalGas seeks a $5.04 million shareholder award for GCIM Year 22 (April 1, 2015 through March 31, 2016). Based on the limited

[1] AReM is a California non-profit mutual benefit corporation formed by electric service providers that are active in California's direct access market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.

availability of Aliso Canyon and the impact on system reliability, Shell Energy, AReM, and SCGC request that the Commission place any SoCalGas shareholder award for GCIM Year 22 (April 1, 2015 through March 31, 2016) in a memorandum account for future disposition by the Commission.

In addition, in light of the impact of the limited availability of Aliso Canyon on the ability of SoCalGas' Gas Acquisition Department to manage the use of SoCalGas' storage assets, any future proposed shareholder awards for GCIM Year 23 and beyond should be placed in the same memorandum account. The Commission must undertake an assessment of SoCalGas' incentives under the GCIM, and the impact of these incentives on system reliability and system balancing, in light of the limited availability of Aliso Canyon. Only through this assessment will the Commission be able to determine whether, and to what extent, the proposed GCIM shareholder awards should be allocated to SoCalGas' shareholders.

In support of their joint protest, Shell Energy, AReM and SCGC state the following:

I.

SHELL ENERGY, AReM AND SCGC'S INTERESTS IN THIS PROCEEDING

Shell Energy is a marketer of natural gas and electricity to wholesale and retail customers throughout California and the western United States. Shell Energy sells gas directly to noncore customers (as well as core aggregation customers) in northern and southern California. Shell Energy also markets gas to all of California's gas utilities for resale to the utilities' core procurement customers.

Shell Energy holds firm capacity rights on interstate pipelines that are connected to the SoCalGas system. Shell Energy also holds capacity rights in the Energia Costa Azul ("ECA") LNG receiving terminal located in Baja California. Shell Energy purchases gas supplies in all of the producing basins that currently serve California. At times, Shell Energy has held firm backbone transmission service ("BTS") rights on the SoCalGas/SDG&E system, as well as firm rights in SoCalGas storage. Shell Energy uses a combination of interstate capacity rights, BTS rights, and storage rights to serve its customers on the SoCalGas (and SDG&E) systems.

The members of AReM are also marketers of natural gas and electricity to wholesale and retail customers in California and elsewhere in the United States. Members of AReM provide retail gas sales service to customers on the SoCalGas system. Members of AReM and their customers are affected by the system reliability issues, including the increased incidence of operational flow orders ("OFO"), that have arisen in the wake of the gas leak at Aliso Canyon.

The members of SCGC are electricity generators in the SoCalGas service territory and related companies that depend on reliable SoCalGas transmission and storage services. These services are now jeopardized by the reduction of withdrawals and the elimination of injections at Aliso Canyon. SCGC generation facilities are located in the Los Angeles Basin, the southern California region that is most directly and adversely affected by the current limitations on Aliso Canyon availability.

SoCalGas' June 15, 2016 application requests a shareholder award for SoCalGas' performance in Year 22 under its GCIM. In the "Annual Report" that is attached to the application, SoCalGas states that it achieved its GCIM results by, among other things, "[m]anaging the use of the rights and assets assigned to the retail core, including storage inventory, injection and withdrawal rights . . . ." Report at p. 4.

In view of the limited availability of Aliso Canyon storage injection and withdrawal capacity during a portion of GCIM Year 22, SoCalGas' use of storage to minimize gas prices for its bundled core customers raises questions about how the incentives under the GCIM have affected SoCalGas' ability to manage system reliability and avoid the imposition of increased OFOs. During this period of limited Aliso Canyon availability, the Commission must explore whether SoCalGas' administration of the core asset management incentives implicit in the GCIM has had an impact on system reliability, including the frequency of OFOs. As marketers, shippers, and customers served by the SoCalGas/SDG&E system, Shell Energy, AReM, and SCGC have direct interests in this proceeding that cannot be represented by any other party.

II.

SERVICE OF CORRESPONDENCE, PLEADINGS AND ORDERS

For the purpose of receipt of all correspondence, pleadings, orders and notices in this proceeding, Shell Energy and AReM should be placed on the service list as parties with the following representative being listed as their representative:

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Likewise, SCGC should be placed on the service list as a party with the following representative being listed as its representative:

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III.

PROTEST TO THE SOCALGAS APPLICATION

SoCalGas' application states that during GCIM Year 22, SoCalGas' gas purchases of $968.1 million were $28.1 million below its gas purchase cost benchmark. Under the GCIM sharing formula, SoCalGas states that it is entitled to a shareholder award of $5.04 million. See Application at p. 12.

Shell Energy, AReM, and SCGC do not challenge SoCalGas' calculation of the award under the GCIM formula. Shell Energy and AReM request, however, that in light of the limited availability of Aliso Canyon during several months of the Year 22 GCIM period (and beyond), the Commission place any calculated GCIM shareholder award in a memorandum account pending a more comprehensive review of how the limitations on Aliso Canyon availability have affected system reliability, customer access to storage, system balancing, and the incentives under the GCIM. Moreover, in future GCIM periods, beginning with Year 23, any calculated shareholder awards should be placed in the same memorandum account pending the outcome of the Commission's comprehensive review.

Deferral of Commission action on SoCalGas' proposed GCIM shareholder award is appropriate because SoCalGas' GCIM application does not include any reference to the limited availability of Aliso Canyon during a portion of the GCIM period. The limited availability of Aliso Canyon may have impacted SoCalGas' core gas procurement as well as its management of the system.

Before the Commission addresses SoCalGas' proposed GCIM award for its shareholders, the Commission should undertake a review of how SoCalGas' Aliso Canyon problems have impacted system reliability and the ability of customers to ship and store gas on the SoCalGas system. In order to determine whether SoCalGas' proposed GCIM shareholder award is warranted in light of its limited storage injection and withdrawal capability during a portion of the GCIM period, the Commission must address how the GCIM incentives have affected costs, including the costs of OFOs, borne by SoCalGas' customers.

A. Based on the Interrelationship between SoCalGas' Use of Storage under the GCIM and the System Reliability Issues Arising from the Limited Availability of Aliso Canyon, SoCalGas' GCIM Award for Year 22 Should be Placed in a Memorandum Account

In the "Annual Report" that accompanies SoCalGas' application, SoCalGas emphasizes that it manages "the use of the rights and assets assigned to the retail core including storage inventory, injection and withdrawal rights, and flowing supply through the use of Secondary Market Services (SMS)." Report at p. 4. The Report continues: "SMS transactions continued to contribute to the overall lower gas costs achieved by Gas Acquisition by using assets not directly needed for reliability." Id. SoCalGas' Annual Report concludes: "In summary, the GCIM provides an incentive for SoCalGas to efficiently use retail core's interstate pipeline [rights] and storage rights to deliver reliable, low-cost gas supplies to its retail core customers . . . ." Id. at p. 5.

SoCalGas' management of its core storage assets, including Aliso Canyon injection and withdrawal capability, relates directly to its ability to minimize its gas purchase costs for bundled core sales customers, which in turn is reflected in the results under the GCIM. In view of the relationship between the limited availability of Aliso Canyon and SoCalGas' management of core assets under the GCIM, allocation of the GCIM award should be addressed in connection with other cost and revenue issues related to Aliso Canyon. SoCalGas' proposed GCIM shareholder award should be placed in a memorandum account for further consideration by the Commission in a future proceeding in which the Commission can address the full panoply of issues associated with the Aliso Canyon limitations.

Placing SoCalGas' proposed GCIM award in a memorandum account is consistent with recent Commission actions setting aside Aliso Canyon-related costs and revenues for future disposition. In D.16-03-031 (March 17, 2016), the Commission ordered SoCalGas

> . . . to establish a memorandum account, effective immediately, to track SoCalGas's authorized revenue requirement and <u>all revenues that SoCalGas receives for its normal, business-as-usual costs to own and operate the Aliso Canyon gas storage field</u>. Such costs include depreciation, rate-of-return, taxes, operations and maintenance, administrative and general, and all other direct and indirect costs that SoCalGas incurs to own and operate Aliso Canyon in the normal course of business.

Decision at p. 8, Ordering Paragraph No. 1 (emphasis added). The Commission ordered further, as follows:

> The authorized revenue requirement and revenues tracked by the memorandum account established pursuant to Ordering Paragraph 1 shall accrue interest and be subject refund. The Commission will determine at a later time whether, and to what extent, the tracked authorized revenue requirement and revenues should be refunded to Southern California Gas Company's customers with interest.

<u>Id</u>. at p. 9, Ordering Paragraph No. 3.

The Commission has ordered establishment of memorandum accounts and balancing accounts in other proceedings in which costs related to Aliso Canyon problems have been (or will be) incurred. In D.16-06-029 (June 9, 2016), for example, the Commission directed Southern California Edison Company ("SCE") to implement additional, expanded demand response programs targeted to the Los Angeles Basin local capacity area to address the limited availability of storage at Aliso Canyon. In its Decision, the Commission authorized SCE to establish a balancing account to record the "Aliso Canyon mitigation expenses authorized in this decision." Decision at pp. 89-91, Ordering Paragraph Nos. 1-16. The Commission reiterated a previous Ruling stating that "safety and ratemaking issues, and broader implications of the natural gas leak at Aliso Canyon would be addressed in other proceedings." Decision at p. 18.

Similarly, in D.16-06-045 (June 23, 2016), the Commission addressed a shift in the local resource adequacy ("RA") requirements from SCE to SDG&E resulting from concerns about the availability of Aliso Canyon. The Commission stated: "Cost recovery issues related to Aliso Canyon are not in [the] scope of this proceeding. However, we need not address cost recovery to conclude that tracking these costs is appropriate to inform future decisions in RA as well as potential cost recovery decisions." Decision at p. 11. On this basis, the Commission ordered SDG&E and SCE to file advice letters "establishing appropriate mechanisms to track changes in local [RA] procurement costs resulting from the shift in local [RA] obligations from [the] LA basin local area to the San Diego sub-area attributable to the operational concerns at the Aliso Canyon storage facility." Decision at p. 64, Ordering Paragraph No. 3.

Consistent with other recent Commission decisions addressing utility costs (and revenues) affected by the limited availability of Aliso Canyon storage, the Commission should order SoCalGas to establish a memorandum account to track any Year 22 shareholder award under the GCIM. As stated in D.16-06-054 (June 23, 2016), the Commission plans to institute a "procedure or proceeding" to address whether "normal, business-as-usual costs and revenues associated with Aliso Canyon should be refunded to ratepayers." Decision at p. 251. This future proceeding should include consideration of how to treat any Year 22 GCIM shareholder award.

B. Future GCIM Shareholder Awards, Including any Award for Year 23, Should Be Placed in the Memorandum Account, Pending a Determination of the Relationship Among the GCIM Incentives, System Reliability, and the Limited Availability of Aliso Canyon

The Commission should place all prospective SoCalGas GCIM shareholder awards, for Years 23 and beyond, in a memorandum account until the Commission determines how the limited availability of Aliso Canyon impacts SoCalGas' management of storage on behalf of bundled core sales customers, and how SoCalGas' management of storage for the core affects system reliability, the frequency of OFOs, and the potential for curtailment of noncore load. As discussed above, the current limited availability of Aliso Canyon necessitates an examination of the incentives created under the GCIM, and the impact on system reliability. All prospective SoCalGas GCIM awards should be placed in a memorandum account until the Commission undertakes this comprehensive review.

IV.

CONCLUSION

Shell Energy, AReM, and SCGC intend to participate actively in this proceeding. For the reasons set forth above, SoCalGas' request for *ex parte* approval of its application should be rejected. SoCalGas' proposed procedural schedule should also be rejected.

This GCIM application should be set for hearing. Any SoCalGas' GCIM shareholder award for Year 22 should be placed in a memorandum account for future disposition by the Commission. Moreover, any GCIM shareholder awards for Years 23 and beyond should be included in the memorandum account until the Commission addresses the interrelationship among SoCalGas' incentives under the GCIM, the limited availability of Aliso Canyon, and the impact on system reliability, including the frequency of OFOs.

Respectfully submitted,

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